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TO RUEHC/SECSTATE WASHDC 4534
RUEATRS/DEPT OF TREASURY WASHDC
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RUEHBK/AMEMBASSY BANGKOK 3624
RUEHBJ/AMEMBASSY BEIJING 6496
RUEHUL/AMEMBASSY SEOUL 8532
RUEHGP/AMEMBASSY SINGAPORE 6852
RUEHKO/AMEMBASSY TOKYO 8576
RUEHML/AMEMBASSY MANILA 9975
RUEHJA/AMEMBASSY JAKARTA 4023
RUEHKL/AMEMBASSY KUALA LUMPUR 3704
RUEHHI/AMEMBASSY HANOI 3256
RUEHBY/AMEMBASSY CANBERRA 4480
RUEHWL/AMEMBASSY WELLINGTON 1739
RUEHHK/AMCONSUL HONG KONG 7739
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RUEHGZ/AMCONSUL GUANGZHOU 0071

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SUBJECT: Taiwan Targets Insider Trading

REF: (A) 06 TAIPEI 3126, (B) 06 TAIPEI 3771, (C) TAIPEI 0049,

11. SUMMARY: Taiwan's prosecutors have come down hard on the all-too-common practice of insider trading, just as they have shaken-up politics-as-usual mixing of personal and private funds (refs A and B). In the past three years, Taiwan's prosecutors begun investigations of 155 suspected insider trading cases referred to them by financial regulators. In mid-March they searched offices and questioned senior executives at two large electronic companies. In the long run, an effective functioning regulatory system will help Taiwan's business sector and deepen its democracy, but in the short run, many top executives could get burnt. END SUMMARY.

The Democratization of Taiwan Law Enforcement

12. Ref A report on democracy and corruption in Taiwan noted that Taiwan prosecutors are proud of the increasing number of prosecutions of high-level white collar criminals. They view their newfound ability to prosecute powerful people as a sign of the increasing democratization of Taiwan. The reach of the prosecutors is indeed impressive; some notable highlights include indicting the wife of the President for misuse of public funds, indicting the son-in-law of the President for insider trading, and indicting the head of the Financial Supervisory Commission Examination Bureau (a key financial crimes investigation agency) for discussing an investigation at a private dinner. One Legislator has estimated that 3-4 thousand government officials could potentially be prosecuted for misuse of public funds and that an even higher number of company executives could potentially be prosecuted for insider trading. In 2004, about 10 percent of Taiwan 700 district level prosecutors were themselves under investigation for corruption. However, prosecutors maintain that this is not because there is more corruption now, but because there is now more transparency, a more aggressive media, and private executives and public officials are

now being held to high standards.

Two Insider Trading Cases

13. After China Rebar Pacific Group Chairman Wang You-theng was indicted for embezzling and laundering over US\$1 billion (ref B), Taiwan's prosecutors accelerated investigation of other white-collar crime cases. On March 13, the Prosecutor's Office (PO) in Taoyuan questioned eight senior executives of BenQ on insider trading. (BenQ is one of the largest personal computer suppliers in the world.) Investigators searched BenQ offices and the eight senior executives' residences. These executives were charged with selling BenQ shares just days before BenQ published heavy losses due to its failure in acquisition of Siemens' mobile phone plant last year. The PO in Taoyuan detained a senior vice president and released seven others on bails ranging from NT\$200,000 (US\$6,061) to NT\$5 million (US\$151,510). The PO in Taoyuan is still investigating whether BenQ Chairman Lee Kun-yao was involved in the insider trading.

14. On March 15, the Prosecutor's Office (PO) in Taichung launched an investigation of insider trading by PowerChip Chairman Frank Huang and his staff. The PO in Taichung searched offices of PowerChip and Veutron (a subsidiary of PowerChip) and Chairman Frank Huang's residence. Huang allegedly sold equity shares in Veutron before Veutron published 2001 losses (NT\$3.06 billion or US\$93 million). (PowerChip is one of the major semiconductor firms and Veutron is an image scanner and relevant products producer in Taiwan.)

Results of Past Efforts

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15. Exposure of the two insider trading scandals is a result of Taiwan authorities' heightened law enforcement efforts. In the three years since the Financial Supervisory Commission was inaugurated in July 2004, the FSC Examination Bureau (EB) has conducted about 2,500 investigation cases and referred 155 cases to the prosecutor's office, according to FSC Chairman Hu Sheng-cheng's report to the Legislative Yuan. On average, the EB has referred 50 cases to the prosecutor's office every year.

COMMENT

16. Taiwan prosecutors are aggressively going after business and official behavior that previously went unquestioned. An efficient financial supervisory mechanism will help Taiwan build a system which will, in turn, protect the island against financial crisis, in the meantime, business people and officials are scrambling to change their behavior to meet the new, higher standards of accountability.

YOUNG